

**REPORT OF THE AUDITOR-GENERAL TO THE MUNICIPAL COUNCIL AND  
KWAZULU-NATAL PROVINCIAL LEGISLATURE ON THE FINANCIAL  
STATEMENTS AND PERFORMANCE INFORMATION OF UPHONGOLO  
MUNICIPALITY, FOR THE YEAR ENDED 30 JUNE 2007.**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the accompanying financial statements of the uPhongolo Municipality which comprise the balance sheet as at 30 June 2007, income statement, and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes and the accounting officer's report as set out on pages 8 to 24.

**Responsibility of the accounting officer for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting, as set out in the accounting policy 1.1 to the financial statements and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes:
  - designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error;
  - selecting and applying appropriate accounting policies; and
  - making accounting estimates that are reasonable in the circumstances.

**Responsibility of the Auditor-General**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
6. An audit also includes evaluating the:
  - Appropriateness of accounting policies used;
  - Reasonableness of accounting estimates made by management; and
  - Overall presentation of the financial statements.

7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### **Basis of accounting**

8. The Municipality's policy is to prepare financial statements on the entity specific basis of accounting as set out in accounting policy 1.1

#### **Opinion**

9. In my opinion the financial statements of the uPhongola Municipality as at 30 June 2007 and its financial performance and cash flows for the year then ended, have been prepared in all material respects in accordance with the basis of accounting as set out in accounting policy note 1.1 and in the manner required by the MFMA.

#### **OTHER MATTERS**

I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

##### **10. Non-compliance with applicable legalisation**

###### **Municipal Finance Management Act**

The annual financial statements for the year ended 30 June 2007 were not submitted by 31 August 2007 as required by section 126 (1)(a) of the MFMA.

##### **11. Matters of governance**

###### **Audit committee**

In terms of S166(2) of the MFMA, each Municipality must have an audit committee unless there is a single audit committee established as per S166(6). Cognisance is taken that a shared service audit committee was established, however, there was no effective audit committee in place for the year under review.

##### **12. Material corrections made to the financial statements submitted for audit**

The financial statements approved by the accounting officer and submitted for audit on 28 September 2007 have been significantly revised in respect of the following misstatements identified during the audit:

- A debtor was not raised in respect of vat amounting to R708 000 due by South African Revenue Services. This resulted in an adjustment to vat and debtors.
- Expenditure was incorrectly capitalised. This resulted in assets being overstated and expenditure understated by R1,2 million.

##### **13. Internal control**

Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes of the matters indicated, as they relate to the five components of internal

control. In some instances deficiencies existed in more than one internal control component.

Reporting Item	Control environment	Assessment of risks	Control activities	Information and communication	Monitoring
<b>Other matters</b>					
Non-compliance with applicable laws and regulations		X	X		X
Matters of governance		X			
Material corrections to the financial statements			X		X

#### 14. Unaudited supplementary schedules

The supplementary information set out on pages 25 to 31 does not form part of the financial statements and is presented as additional information. I have not audited these schedules, accordingly, I do not express an opinion on them.

#### OTHER REPORTING RESPONSIBILITIES

##### Reporting on performance information

15. I was engaged to audit the performance information.

##### Responsibility of the accounting officer for the performance information

16. In terms of Section 121(3)(c) of the MFMA, the annual report of a municipality must included the annual performance report of the municipality prepared by the municipality in terms of Section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

##### Responsibility of the Auditor-General

17. I conducted my engagement in accordance with Section 13 of the PAA read with General Notice 646 of 2007, issued in Government Gazette No. 646 of 25 May 2007 and section 45 of the MSA.

18. In terms of the foregoing, my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

19. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

### **Audit findings (performance information)**

#### **20. No reporting of performance information**

Annual performance report of the municipality prepared in terms of Section 46 of the MSA, was not produced for audit purposes.

#### **21. Existence and function of a performance audit committee**

The municipality did not appoint and budget for a performance audit committee.

#### **22. Internal auditing of performance measurements**

The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal auditing processes as required in terms of Section 45 of the MSA.

### **APPRECIATION**

23. The assistance rendered by the staff of the uPhongolo Municipality during the audit is sincerely appreciated.

*Auditor-General*

Pietermartizburg

21 December 2007



AUDITOR-GENERAL